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C O N F I D E N T I A L BAGHDAD 004322

SIPDIS

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TAGS: [ECON](#) [ENRG](#) [EPET](#) [MOPS](#) [MARR](#) [PGOV](#) [PREL](#) [TU](#) [IZ](#)

SUBJECT: OIL MINISTRY OFFICIAL SAYS IRAQ WILL PAY ARREARS
"SOON"

REF: ANKARA 6231 AND PREVIOUS

Classified By: Economic Minister Counselor Tom Delare for reasons 1.4 (b) and (d).

¶1. (C) Summary: Senior Advisor to the Minister of Oil Abdul Sahib al-Qutub said that he was working with the Ministry of Finance to organize payment o/a October 19 of some \$450 million in arrears to Turkish firms for fuel imports. Ministry of Oil officials blamed the poor security situation in the north - which blocks pipelines to and from Bayji refinery and thus limits domestic production - for the "doubling" of Iraq's fuel imports. They also blamed Turkish mis- or non-supply of appropriate fuel for the shortage of gasoline in the northern provinces. End Summary.

"The Check's in the Mail"

¶2. (C) In a meeting with Emboffs October 18, Senior Advisor to the Minister of Oil Abdul Sahib Al-Qutub acknowledged that \$450 million dollars was past due to Turkish companies for fuel imports. According to him, another \$250 million was also owed but that account was current. (Comment: This is does not match Turkish claims cited reftel, but al-Qutub was not prepared to acknowledge any more than the figures given here. End Comment). Al-Qutub, recently appointed head of the State Oil Marketing Organization (SOMO) Oversight Commission, said that he and other Ministry of Oil (MoO) officials were working with officials from the Ministry of Finance to organize a payment of \$450 million "today or tomorrow."

¶3. (C) Al-Qutub said that the arrears had been over \$800 million twice before: once in May 2005 and again in July/August. The GOI had paid down these debts to roughly half each time. "From time to time, there is a little delay, he said. Al-Qutub maintained that other suppliers were more patient with Iraq's "difficult situation" than Turkey, where "commercial interests are superseding friendly relations."

Wrong Product, Insufficient Amounts

¶4. (C) Al-Qutub said that a number of Turkish supply contracts had recently been terminated and new ones signed effective October 1, 2005. He cited failure to deliver the minimum amounts of fuel required under the old contracts and what al-Qutub said was a Turkish government preference to have a smaller number of larger suppliers working with SOMO as reasons for the cancellations.

¶5. (C) Al-Qutub maintained that Turkish suppliers had not been sending the agreed-upon amounts and types of fuel since August, and that this misdelivery of fuel type (eg. kerosene instead of gasoline) has caused problems meeting fuel requirements in the northern provinces. "Supply is done according to the desire of the Turkish companies, not according to Iraq's needs," he said.

Poor Security Equals More Imports

¶6. (C) Al-Qutub said that Iraq had been forced to double its imports because poor security in the north had limited domestic fuel production, a concern echoed by Deputy Director General for Distribution Bassin. In particular, Bassin said that failure to safeguard the crude pipeline from Kirkuk to Bayji affects negatively the amount of fuel that Iraq can produce; the failure to secure the product pipeline from the Bayji Refinery to Baghdad impacts MoO's ability to move what it does produce to consumers. Lack of security on the road from the Turkish border to Mosul is also problematic, Bassin said, adding that criminals are smuggling fuel out of the north faster than the GOI can bring it in.

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